

Silverwood's





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TO OUR SHAREHOLDERS:

The information contained in this report covers 24 weeks of operation of your company for the period January 3 to June 18, 1972. Comparative figures are given for the 24 week period, January 4 to June 20, 1971.

Sales of \$76 million for the first 24 weeks in 1972 are 5.8% higher than in the same period of the previous year, reflecting primarily the growth taking place within Mac's Milk Limited. Consolidated Net Earnings of \$787,918 show an improvement of 11.4% over a year ago, with the major portion arising from extraordinary items discussed in previous reports.

The Consolidated Working Capital of \$2,967,889 is in a satisfactory position for this time of year, being slightly ahead of the same period last year.

However, we are very cognizant of the sharp decline in operating earnings in certain segments of the Dairy Divisions. Because of the nature of our labour intensive distribution structure and the continued competitive pressures on operating margins, earnings in this area of the business have been severely restricted. Re-evaluation studies of the dairy products distribution system have been undertaken and changes are being made to cope with existing conditions.

The convenience store operations of Mac's Milk Limited are reflecting the improved changes in procedure to which we alluded in the last report. During the period, 27 stores have been opened while 10 stores have been closed because of changes in the nature of the locations over the last decade in which they have been operated. At June 18, 1972, the number of Mac's convenience stores had been increased to 395, from 378 at the beginning of the 24 week period.

It is apparent that for the balance of 1972 the company will continue to face difficult operating conditions with severe pressures being brought to bear on its financial operating results. Nevertheless, we remain confident that improvement in those results can be achieved over the longer period.

Accordingly with Consolidated Earnings of 58.61¢ per share for the period to date, dividends for the third quarter of the fiscal period are being maintained at the 20¢ per share rate.

E. S. Lindley
E.S.

Chairman of the Board,
President,
Chief Executive Officer.

London, Canada,
August 8, 1972.

file



Silverwood's

**Support Your
CANADIAN OWNED AND
OPERATED COMPANY**

**Buy Silverwood's Dairy Products
Patronize Your Mac's Milk Store**

**INTERIM REPORT
to the shareholders of
Silverwood Industries Limited
for the 24 weeks
ended June 18, 1972**



Silverwood's

**HEAD OFFICE
75 BATHURST STREET
LONDON 15, ONTARIO**

Silverwood Industries Limited and its Subsidiary Companies

INTERIM STATEMENT OF CONSOLIDATED INCOME (not audited)

	24 Weeks Ended June 18, 1972	24 Weeks Ended June 20, 1971
Sales	\$75,995,373.	\$71,811,439.
Less:		
Cost of materials and production expenses	54,814,411.	51,665,295.
Selling administrative and general expenses	18,468,197.	16,714,528.
Depreciation and amortization	1,591,222.	1,448,508.
Interest (including interest on short term debt 1972 — \$99,616; 1971 — \$120,914)	509,735.	400,390.
	75,383,565.	70,228,721.
Income before taxes on income	611,808.	1,582,718.
Taxes on income		
Current	278,764.	864,862.
Deferred	13,093.	8,858.
	291,857.	873,720.
Consolidated net income before minority interest	319,951.	709,998.
Minority interest in income of subsidiary companies (net)	136.	1,780.
Consolidated net income before extraordinary items	319,815.	707,218.
Extraordinary items (including deferred income taxes of \$32,525.)	468,103.	—
Consolidated net income for period	\$ 787,918.	\$ 707,218.
Earnings per Class "A" & "B" shares		
— Consolidated net income before extraordinary items	23.79¢	52.61¢
— Consolidated net income for period	58.61¢	52.61¢

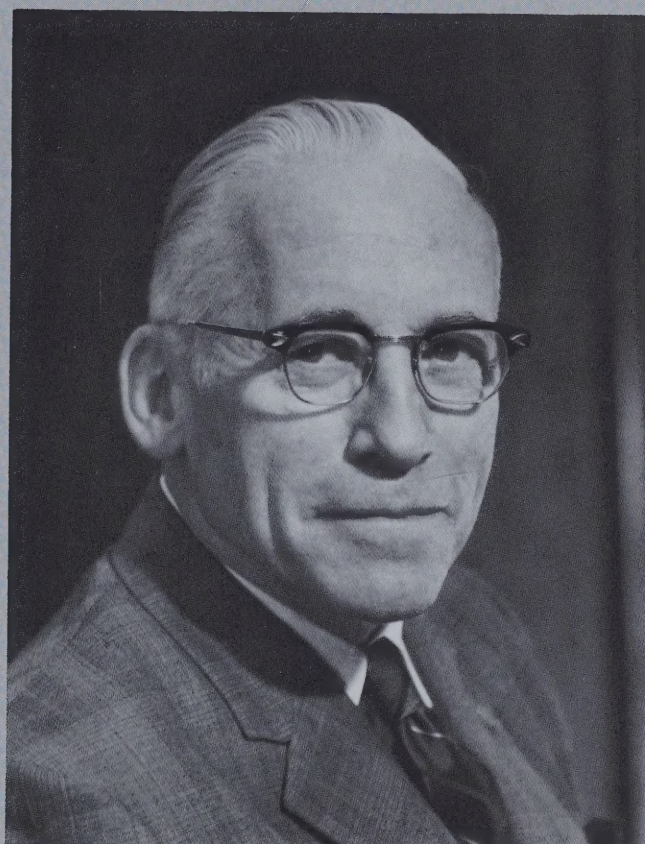
STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS (not audited)

	24 Weeks Ended June 18, 1972	24 Weeks Ended June 20, 1971
SOURCE OF FUNDS:		
Operations —		
Consisting of:		
Consolidated net income for period	\$ 787,918.	\$ 707,218.
Amounts deducted in arriving at the above net income, not an outlay of funds		
Depreciation and amortization	1,591,222.	1,448,508.
Gain on Sale of Fixed Assets	(425,008.)	—
Deferred income taxes	(19,442.)	8,858.
Proceeds from disposals of plant and equipment	1,934,690.	2,164,584.
Proceeds from receipt of term notes payable to bankers	734,668.	40,419.
Decrease (Increase) in sundry assets	2,100,000.	—
	27,386.	(150,990.)
	4,796,744.	2,054,013.
APPLICATION OF FUNDS:		
Additions to plant and equipment	1,222,475.	1,361,071.
Dividends to shareholders	537,746.	537,748.
Provision for retirement of debentures and reduction of other deferred liabilities	1,183,216.	620,439.
Acquisition of minority interest shares — Mac's Milk Limited	2,159,726.	—
	5,103,165.	2,519,258.
Decrease in consolidated working capital	306,421.	465,245.
Consolidated working capital, beginning of period	3,274,310.	3,355,441.
Consolidated working capital, end of period	\$ 2,967,889.	\$ 2,890,196.

Silverwood's



In Memoriam



Edward Gordon Silverwood 1904~1972

The Board of Directors and members of the staff of the company were saddened by the death of E. Gordon Silverwood, Honorary Chairman of the Board of Directors of Silverwood Industries Limited, on December 28th, 1972.

Gordon Silverwood was born in London, Ontario, in 1904, the son of Albert Edward and Eva Montrose Silverwood. His father, Albert Edward Silverwood, had founded Silverwood Industries Limited (formerly Silverwood Dairies, Limited) in 1903. Gordon attended school in London and graduated from the University of Western Ontario in 1925, joining the company on a permanent basis at that time. He had begun his dairy career with Silverwood Dairies, Limited during vacations from 1919 - 1925. He was appointed to the position of Plant Superintendent, London Branch, in 1928, General Manager, London Branch in 1935, Vice President Silverwood Dairies,

Limited in 1945, and President in 1947. In that position from 1947 - 1961, he guided the company in its development to the largest dairy company in Canada. He was named Vice-Chairman of the Board in 1961 and later in that year, Chairman of the Board. In 1966, due to health factors, he retired from active guidance of the company and was named Honorary Chairman of the Board.

In his active business life he worked diligently to promote the dairy business, having served as a President of the International Association of Ice Cream Manufacturers, a Director of the Milk Industry Foundation, President of the Ontario Association of Ice Cream Manufacturers, member of the Ontario Milk Distributors Association and the National Dairy Council of Canada. He was also very active in community affairs having served as President of the London Rotary Club, The London District Crippled Children's Treatment Centre and Past

Master of the Tuscan Lodge, No. 195, A.F. and A.M. Mr. Silverwood made a significant contribution in his association with the musical community and in the United Church of Canada, through the First-St. Andrew's Church in London.

He is survived by his widow, Helen Marlowe Silverwood, a daughter Mary Jane, a son Donald Gordon, two grandchildren Peter G. and Mark D. Silverwood, and a sister Mrs. Albert E. Lawrence.

His death leaves not only a serious loss within the company where his wise counsel and human understanding were of major importance over the years, but also within the business world and the community at large where his outstanding leadership and friendly spirit had been keenly felt.

E. Gordon Silverwood will be very much missed by all those who were privileged to know him.

SILVERWOOD INDUSTRIES LIMITED

70th Annual Report, YEAR ENDED December 31, 1972

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financial highlights

	Year Ended	
	December 31 1972	January 2 1972
SALES	\$172,001,680	\$162,629,505
CONSOLIDATED NET INCOME BEFORE EXTRAORDINARY ITEMS	\$ 1,247,582	\$ 1,504,587
CONSOLIDATED NET INCOME FOR YEAR	\$ 1,762,700	\$ 1,538,348
DIVIDENDS PAID	\$ 1,075,496	\$ 1,075,496
RATE PER CLASS "A" AND CLASS "B" SHARE	\$.80	\$.80
CONSOLIDATED RETAINED EARNINGS RE-INVESTED IN BUSINESS TO DATE	\$ 15,881,638	\$ 15,194,434
SHAREHOLDERS' EQUITY	\$ 23,222,955	\$ 22,535,751
SHARES OUTSTANDING		
CLASS "A"	903,158	903,158
CLASS "B"	441,212	441,212
EQUITY PER CLASS "A" AND "B" SHARE	\$ 17.27	\$ 16.76
DEBENTURES OUTSTANDING	\$ 7,766,000	\$ 8,000,500
CONSOLIDATED FUNDS PROVIDED FROM OPERATIONS	\$ 4,801,805	\$ 4,868,643
CONSOLIDATED WORKING CAPITAL	\$ 3,929,331	\$ 3,274,310

SILVERWOOD INDUSTRIES LIMITED

(A Canadian owned company with 4,055 shareholders of which 3,986 or 98.3% are resident in Canada and own 99.3% of the total issued stock)

DIRECTORS (as at December 31, 1972)

W. I. Barton*
London, Ontario

Peter V. V. Betts, Q.C.*
Practice of Law — Partner of the firm of
Roberts, Betts, McLennan & Flinn, Barristers
London, Ontario

G. M. Carlyle
Calgary, Alberta

E. F. Findlay*
London, Ontario

L. R. Gray*
London, Ontario

D. F. Guy*
President, Mac's Milk Limited
Toronto, Ontario

N. E. Kaye
Toronto, Ontario

A. E. Lawrence, Sr.
Director,
DuMoulin, Moore & Duffield Limited
London, Ontario

A. E. Lawrence, Jr.
London, Ontario

R. G. Pardy*
London, Ontario

K. E. Perrin
London, Ontario

D. G. Silverwood*
London, Ontario

H. T. Spettigue*
London, Ontario

J. Allyn Taylor*
Chairman of the Board,
The Canada Trust Company and the
Huron & Erie Mortgage Corporation
London, Ontario

D. H. Thain*
Professor — School of Business Administration,
University of Western Ontario
London, Ontario

C. L. Tulloch
President,
Londonderry Distributors Limited
London, Ontario

David B. Weldon*
Chairman of the Board and President,
Midland-Osler Securities Limited
Toronto, Ontario

* Member of the Executive Committee

OFFICERS (as at December 31, 1972)

E. F. Findlay	- - - - -	Chairman of the Board President and Chief Executive Officer
H. T. Spettigue	- - - - -	Senior Vice President
R. G. Pardy	- - - - -	Vice President - Finance
W. Sagain	- - - - -	Vice President - General Manager - Dairy Divisions
C. L. Tulloch	- - - - -	Vice President
W. I. Barton	- - - - -	Secretary-Treasurer
F. P. Higgs	- - - - -	Controller
A. E. Lawrence, Jr.	- - - - -	Assistant Treasurer
C. E. McArthur	- - - - -	Assistant Secretary

Chairman's Message to Our Shareholders

London, Canada, March 22, 1973

We submit this 70th Annual Report of the consolidated financial results of Silverwood Industries Limited and its subsidiary companies (as listed on the back page of the report) for the fiscal year ended December 31st, 1972, on behalf of the Board of Directors.

The operating results for the 52-weeks ended December 31st, 1972 reflect the very severe pressures on the Dairy Divisions of the company as mentioned to you in the Interim Reports published during this past year. There is however a definite indication in the third and fourth quarters of last year that the steps taken to surmount those pressures are bringing about a profit trend that is continuing to improve results in the current fiscal period.

Consolidated Sales increased, according to plan, by \$9,372,175 reflecting a 5.76% growth over the previous year. The greater part of the increase emanates from the convenience store division with dairy division sales remaining fairly static. Cool weather conditions generally across the country in 1972 had a depressing effect on ice cream sales, while home service continued to decline fractionally.

The extreme pressures on margins, brought about by increased labour and raw product costs, that could not be matched in adjusted selling prices created a marked decrease in our net income before taxes. This decrease has been partially counteracted by a reduced rate of corporate taxes required to be paid, created not only by an adjustment in the corporate tax rate, but also the use of loss carry-forwards to some minor degree. You will also note that there is no minority interest stated in the period ended December 31st, 1972. Due to the fact that the company had purchased the remaining 20% interest of Mac's Milk Limited on January 12th, 1972, the major portion of minority interest was deleted in that transaction and this figure is no longer stated. The net result of all these items is that our consolidated operating profit is down 17.08%.

In our last Annual Report, we had already detailed the disposal of certain of our properties in 1972 which were no longer required in the operation and these disposals are reflected in the extraordinary item gain of \$515,118. The overall net result for the year is an increase over the previous year in the consolidated net income of \$224,352 or 14.58%.

1972 was a year of re-organization, re-evaluation and consolidation within the total operating structure. Both structural and personnel changes have, or are being made in the major operating divisions to better utilize the talents within the organization and, where necessary, to bolster the available knowledge with personnel experienced in new marketing and distribution techniques.

Many changes are taking place in the dairy products market and management has moved aggressively to adjust this segment of our business to exploit the opportunities. This changeover cannot be accomplished on a short-term basis in that it is a re-orientation of production and distribution facilities, marketing philosophies and programs. Reference has been made in our Interim Report to the re-evaluation studies being made. Steps are being taken to bring the dairy operations to the position the studies indicate is necessary. Mr. William Sagain came on staff in late 1972 as Vice President, General Manager — Dairy Divisions well-schooled in changing production and marketing philosophies and with long-term experience in the dairy industry. Additional staff in the production and marketing fields has also been obtained to augment our own staff in strengthening this division.

The wholesale production and distribution facilities are going through a major changeover, including the building of a new dairy plant facility in Winnipeg. Ongoing studies are taking place in our other major Western markets, together with a re-assessment of our distribution patterns in the Ontario market-place. The butter production facility at Elmira was closed, as well as milk and ice cream distribution branches at Stratford, Ontario; Thompson, Manitoba and Cranbrook, British Columbia. The latter two operations were sold, involving a withdrawal of Silverwood from the respective markets.

The home service division has moved aggressively with a marked degree of success in combating the rising costs of delivery on a per-stop basis. Customers have been encouraged to reduce the frequency of their deliveries in certain test markets in Ontario and Manitoba through the use of a 5-quart pouch-pak. While the concept is still in the development stage, the acceptance of the principle of large multiple deliveries has given new impetus to this distribution method. It is interesting to note that we have completely removed the quart container from home delivery in the Manitoba market with the approval of customers.

The specialty ice cream stores under the "Baskin-Robbins" name are developing with six stores being in operation at the present time in the Toronto area. Although the number of outlets in this program has not expanded as rapidly as anticipated, we are pleased with the results of those stores opened. We are anticipating a greatly improved sales year in 1973 for the whole ice cream division.

The acquisition of the remaining minority interest in Mac's Milk Limited and the re-organization of the management group of that company, has produced very concrete results in those operations. Early in 1972, Mr. Donald F. Guy was named President of that company transferring to the convenience store division after many years of management experience in the dairy division. R. S. Maich was subsequently made Vice President, General Manager, adding a dimension of marketing experience in that operation. The store expansion program has moved ahead quite aggressively and as mentioned to you in the Preliminary Annual Report, the company was operating 423 stores at December 31st, 1972 as against 378 stores at January 2nd, 1972. In this division of our business, many changes in distribution and marketing concepts are also being made after the completion of extensive studies. Both profitability and store openings are up over the previous year and similar increases have been budgeted for the current year.

Late in the year a further expansion of our convenience store operations was announced with the acquisition of the Manitoba Division of Mini-Mart Stores from Westfair Foods Limited. This was part of a planned program of expansion in Winnipeg, where the decision had been taken to replace our dairy plant facilities. The old plant had reached a stage where further alterations and upgrading of equipment were no longer economically practical for the increased efficiency obtained. The construction of the new plant is moving ahead and we expect to have it completely on-stream later this year. This step, of course, will release the present plant property and facilities in downtown Winnipeg for sale.

The company has also moved aggressively into the Citrus Juice processing and distribution field, placing all of that segment of our business under Londonderry Distributors Limited, a wholly-owned subsidiary. Mr. C. L. Tulloch was named to the position of Vice President, Silverwood Industries Limited and President, Londonderry Distributors Limited, bringing his life-time of management experience in the dairy division to the Londonderry operation. While the 1972 period was the initial step in this field, there is every reason to believe that this will be a growing and profitable venture in future years.

Announcement was also made of the promotion of Mr. H. T. Spettigue to the position of Senior Vice President, Silverwood Industries Limited in recognition of his outstanding contribution in the fields of production and product research for the company over a span of 48 years. His position as President of Silverwood Employee Holdings Limited with its growing responsibilities continues, together with the full responsibility for the direction of our Research and Development staff and facilities.

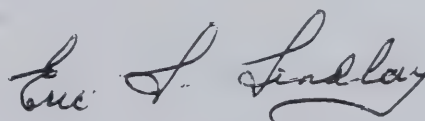
We regret to record the retirement from our Board of Directors at the last Annual Meeting of a former Chairman of our Board, Mr. J. H. Gillies. Harold had been a steadying influence on our deliberations over his many years of service to this company and his personal advice is still sought and valued. Mr. D. F. Guy and Mr. K. E. Perrin were appointed to the Board to replace Mr. Gillies and fill the vacancy created by the withdrawal of Mr. K. C. McGowen at the time of the sale of his interest in Mac's Milk Limited. At the last Annual Meeting, Mr. D. G. Silverwood announced his decision not to stand for re-election to the position of President, Silverwood Industries Limited, for personal reasons. Don has, however, continued to be an able and constructive representative on the Board of Directors and keeps the Silverwood name and family traditions a very distinct part of our company profile.

At this time I would like to mention the very deep loss that was occasioned by the death at the close of the year of the Honorary Chairman of the Board, E. Gordon Silverwood. He was a source of inspiration to everyone in the company from Ottawa to Victoria. This report has outlined for you Mr. Silverwood's contribution to the company, but words are not adequate to express the personal loss of not only a valued business adviser, but also a very warm, considerate friend. The A. E. Silverwood Foundation, created by Gordon's father and the founder of our company, and administered by the Silverwood family under Gordon's leadership until his death, continues to be a real source of pride to all in the Silverwood business and symbolic of the generous nature and personal interest of the Silverwood family towards the development of academic assistance for youth and medical research. During 1972, the Foundation extended University bursaries to thirty-eight students chosen from the families of Silverwood employees. In addition, four bursaries were provided for nurses taking post-graduate studies in nursing education or nursing science administration, together with specific grants to a number of organizations to assist in medical research or active treatment.

We at Silverwoods feel that despite the difficulties encountered in making a major change in our methods of operation, significant results are being achieved and real enthusiasm engendered internally. It is recognized that from a shareholder's point of view, it has been a disappointing year. Yet, as already suggested, it was a year of re-organization. One can't help but be impressed with the air of determination and confidence that now pervades the offices of the organization.

Special tribute should be paid to our staff who have been involved in many major changes, both in the dairy divisions and the convenience store field. Their ability to cope with these changes in what is a major changeover in our operations, has been of the highest degree and to them we express a very sincere thank you. Our excellent association with our suppliers continues to be a major item in the ongoing efficient operation of our company.

We are grateful for the support expressed on all sides and feel confident in anticipating a more satisfactory year in 1973.

A handwritten signature in dark ink, appearing to read "E. S. Lindley". The signature is fluid and cursive, with a large, stylized "L" at the end.

Chairman of the Board,
President and
Chief Executive Officer

ten year comparative summary

1972 — **Fifty-two weeks ended December 31, 1972
 1972 — *Fifty-two weeks ended January 2, 1972
 1971 — Forty weeks ended January 3, 1971
 1964-70 — Each year is a 12 month period ended March 31

FISCAL PERIOD	** 1972	* 1972	1971	1970
SALES	\$172,001,680	\$162,629,505	\$118,042,541	\$144,678,89
CONSOLIDATED NET INCOME BEFORE EXTRAORDINARY ITEMS	\$ 1,247,582	\$ 1,504,587	\$ 1,409,910	\$ 1,885,29
CONSOLIDATED NET INCOME FOR PERIOD	\$ 1,762,700	\$ 1,538,348	\$ 1,466,225	\$ 2,261,50
CONSOLIDATED NET INCOME FOR EACH CLASS "A" AND "B" SHARE BEFORE EXTRAORDINARY ITEMS	\$.93	\$ 1.12	\$ 1.05	\$ 1.4
CONSOLIDATED NET INCOME FOR EACH CLASS "A" AND "B" SHARE FOR PERIOD	\$ 1.31	\$ 1.14	\$ 1.09	\$ 1.6
DIVIDENDS	\$ 1,075,496	\$ 1,075,496	\$ 806,622	\$ 1,075,49
PER CLASS "A" SHARE	.80	.80	.60	.8
PER CLASS "B" SHARE	.80	.80	.60	.8
PERCENTAGE OF CONSOLIDATED EARNINGS PAID IN DIVIDENDS	61.0%	69.9%	55.0%	47.6
CONSOLIDATED EARNINGS RE-INVESTED IN THE BUSINESS	\$ 687,204	\$ 462,852	\$ 659,603	\$ 1,186,00
PERCENTAGE OF CONSOLIDATED EARNINGS RE-INVESTED IN THE BUSINESS	39.0%	30.1%	45.0%	52.4
CAPITAL INVESTED				
LONG TERM DEBT	\$ 12,684,757	\$ 11,007,652	\$ 10,670,617	\$ 10,696,84
SHAREHOLDERS' EQUITY	\$ 23,222,955	\$ 22,535,751	\$ 22,072,899	\$ 21,413,29
TOTAL	\$ 35,907,712	\$ 33,543,403	\$ 32,743,516	\$ 32,110,14
PERCENTAGE OF SHAREHOLDERS' EQUITY TO TOTAL INVESTMENT	64.6%	67.1%	67.4%	66.7
SHAREHOLDERS' EQUITY PER SHARE	\$ 17.27	\$ 16.76	\$ 16.42	\$ 15.9
CONSOLIDATED WORKING CAPITAL DEC. 31/72; JAN. 2/72; JAN. 3/71; MAR. 31/64-70	\$ 3,929,331	\$ 3,274,310	\$ 3,355,441	\$ 4,249,57

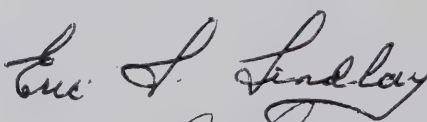

1969	1968	1967	1966	1965	1964
\$125,956,843	\$ 99,805,847	\$ 90,790,724	\$ 61,956,835	\$ 53,512,422	\$ 51,914,455
\$ 1,823,393	\$ 1,697,382	\$ 1,667,497	\$ 1,535,809	\$ 1,556,958	\$ 1,525,583
\$ 2,094,577	\$ 2,023,326	\$ 1,731,052	\$ 1,559,984	\$ 1,583,590	\$ 1,543,919
\$ 1.36	\$ 1.26	\$ 1.24	\$ 1.16	\$ 1.23	\$ 1.22
\$ 1.56	\$ 1.51	\$ 1.29	\$ 1.18	\$ 1.25	\$ 1.23
\$ 1,075,498	\$ 1,075,495	\$ 1,070,570	\$ 991,413	\$ 882,228	\$ 840,326
.80	.80	.80	.77½	.70	.67½
.80	.80	.80	.77½	.70	.67½
51.3%	53.2%	61.8%	63.3%	55.7%	54.4%
\$ 1,019,079	\$ 947,831	\$ 660,482	\$ 568,571	\$ 701,362	\$ 703,593
48.7%	46.8%	38.2%	36.7%	44.3%	45.6%
\$ 9,677,792	\$ 9,923,198	\$ 10,345,957	\$ 2,950,796	\$ 1,124,500	\$ 1,563,000
\$ 20,227,287	\$ 19,165,244	\$ 18,227,609	\$ 17,320,583	\$ 15,254,797	\$ 14,415,951
\$ 29,905,079	\$ 29,088,442	\$ 28,573,566	\$ 20,271,379	\$ 16,379,297	\$ 15,978,951
67.6%	65.9%	63.8%	85.4%	93.1%	90.2%
\$ 15.05	\$ 14.26	\$ 13.56	\$ 13.12	\$ 12.07	\$ 11.52
\$ 3,103,157	\$ 7,683,550	\$ 7,700,429	\$ 2,509,365	\$ 4,880,322	\$ 3,993,444

consolidated balance sheet - December 31, 1972

(with comparative amounts at January 2, 1972)

SILVERWOOD INDUSTRIES LIMITED (Incorporated under the laws of Ontario)
and its subsidiary companies

assets

	December 31, 1972	January 2, 1972
Current:		
Cash	\$ 2,389,061	\$ 1,107,878
Short term deposits	500,000	
Marketable securities — at cost (approximate market value December 31, 1972 — \$787,000; January 2, 1972 — \$822,000)	913,875	928,875
Trade accounts and other receivables (less allowance for doubtful accounts — December 31, 1972 — \$796,525; January 2, 1972 — \$510,744)	8,984,251	8,376,169
Inventories — at the lower of cost or net realizable value (see note 3)	10,134,484	9,576,513
Prepaid expenses	769,540	909,762
	<u>23,691,211</u>	<u>20,899,197</u>
Fixed — (see note 4) :		
Land, buildings, equipment and leasehold improvements — at cost	58,406,201	56,978,592
Less accumulated depreciation and amortization	29,764,059	28,127,839
	<u>28,642,142</u>	<u>28,850,753</u>
Sundry:		
Deferred expenses and other assets	945,426	1,120,475
Goodwill and route lists — at cost (see note 5)	6,028,605	4,016,474
Expenses in connection with debentures issued, less amortization	299,708	320,703
	<u>7,273,739</u>	<u>5,457,652</u>
On behalf of the Board		
Director 		
Director 		
	<u>\$59,607,092</u>	<u>\$55,207,602</u>

(See accompanying notes

liabilities

	December 31, 1972	January 2, 1972
Current:		
Due to bankers	\$ 2,841,970	\$ 3,683,281
Accounts payable — milk and cream producers	3,570,045	3,555,300
Other accounts payable and accrued charges	10,235,733	8,363,791
Income taxes payable	856,645	796,546
Employees' tax deductions and realty taxes payable	564,942	506,133
Dividends declared	268,768	268,768
Principal instalments on debentures and other deferred liabilities due within one year	1,423,777	451,068
	<u>19,761,880</u>	<u>17,624,887</u>
Debentures payable and other deferred liabilities (see notes 6 and 7)	12,684,757	11,007,652
Deferred income taxes	3,937,500	3,852,250
Minority interest in subsidiary companies (see note 1)		<u>187,062</u>
Shareholders' equity:		
Capital —		
Class "A" shares without par value entitled to cumulative, preferential dividends of 60¢ per share per annum, payable quarterly, and after the Class "B" shares have received 60¢ per share in any one year to further participation rateably with Class "B" shares; entitled in liquid- ation to a priority of \$15 per share —		
Class "B" shares without par value —		
	Class "A"	Class "B"
Authorized	1,000,000 shares	500,000 shares
Issued	903,158 shares	441,212 shares
		7,341,317
		<u>7,341,317</u>
Consolidated retained earnings (see note 7)	15,881,638	15,194,434
	<u>23,222,955</u>	<u>22,535,751</u>
	<u>\$59,607,092</u>	<u>\$55,207,602</u>

consolidated statement of income

Year ended December 31, 1972 (with comparative amounts for the year ended January 2, 1972)

SILVERWOOD INDUSTRIES LIMITED and its subsidiary companies

	December 31, 1972	January 2, 1972
Sales	\$172,001,680	\$162,629,505
Less:		
Cost of materials and production expenses	124,239,271	118,153,599
Selling, administrative and general expenses	40,911,071	36,937,119
Depreciation and amortization	3,430,378	3,196,995
Interest (including interest on short term debt — December 31, 1972 — \$174,972; January 2, 1972 — \$241,942)	1,110,978	981,555
	<u>169,691,698</u>	<u>159,269,268</u>
Income before taxes on income	<u>2,309,982</u>	<u>3,360,237</u>
Taxes on income:		
Current	951,650	1,686,400
Deferred	110,750	133,300
	<u>1,062,400</u>	<u>1,819,700</u>
Consolidated net income before minority interest and extraordinary items....	1,247,582	1,540,537
Minority interest in income of subsidiary companies (net) (see note 1).....		35,950
Consolidated net income before extraordinary items	<u>1,247,582</u>	<u>1,504,587</u>
Extraordinary items (see note 8)	515,118	33,761
Consolidated net income for year (see note 2)	<u>\$ 1,762,700</u>	<u>\$ 1,538,348</u>
Earnings per Class "A" and "B" shares:		
Consolidated net income before extraordinary items	<u>\$.93</u>	<u>\$1.12</u>
Consolidated net income for year	<u>\$1.31</u>	<u>\$1.14</u>

(See accompanying notes to the consolidated financial statements)

consolidated statement of retained earnings

Year ended December 31, 1972 (with comparative amounts for the year ended January 2, 1972)

SILVERWOOD INDUSTRIES LIMITED and its subsidiary companies

	December 31, 1972	January 2, 1972
Balance, beginning of year	\$15,194,434	\$14,731,582
Add consolidated net income for year (see note 2)	1,762,700	1,538,348
	<u>16,957,134</u>	<u>16,269,930</u>
Deduct:		
Dividends declared (80¢ per share) —		
Class "A"	722,526	722,526
Class "B"	352,970	352,970
	<u>1,075,496</u>	<u>1,075,496</u>
Balance, end of year	<u>\$15,881,638</u>	<u>\$15,194,434</u>

(See accompanying notes to the consolidated financial statements)

consolidated statement of source and application of funds

Year ended December 31, 1972 (with comparative amounts for the year ended January 2, 1972)

SILVERWOOD INDUSTRIES LIMITED and its subsidiary companies

	December 31, 1972	January 2, 1972
Source of funds:		
Operations —		
Consisting of:		
Consolidated net income for year	\$1,762,700	\$1,538,348
Add:		
Depreciation and amortization	3,430,378	3,196,995
Deferred income taxes	85,250	133,300
Gain on sale of land, buildings and store	(476,523)	
	<u>4,801,805</u>	<u>4,868,643</u>
Proceeds from receipt of term notes payable to bankers and mortgages payable	3,391,000	900,000
Proceeds on disposal of fixed assets and store	1,029,326	183,704
Decrease in sundry assets (net)	160,974	
	<u>9,383,105</u>	<u>5,952,347</u>
Application of funds:		
Additions to the companies' plant and equipment	3,753,575	4,209,013
Dividends to shareholders	1,075,496	1,075,496
Provision for retirement of debentures and reduction of other deferred liabilities (net)	1,739,286	562,965
Increase in sundry assets (net)		186,004
Acquisition of balance of minority interest in certain subsidiaries	2,159,727	
	<u>8,728,084</u>	<u>6,033,478</u>
Increase (decrease) in consolidated working capital	655,021	(81,131)
Consolidated working capital, beginning of year	3,274,310	3,355,441
Consolidated working capital, end of year	<u>\$3,929,331</u>	<u>\$3,274,310</u>

(See accompanying notes to the consolidated financial statements)

1. Acquisition of subsidiaries

During the year the company acquired the balance of the shares outstanding in two of its subsidiary companies, Mac's Milk Limited and Londonderry Distributors Limited. The company previously held an 80% and 90% interest respectively in these companies. The remaining minority interests are not material in nature and accordingly have not been shown separately on the attached consolidated financial statements.

2. Principles of consolidation

The accompanying consolidated financial statements include the accounts of all subsidiary companies in which Silverwood Industries Limited or its subsidiaries owned an equity interest in excess of 50% at the respective fiscal year ends with appropriate provision for minority interest. The operating results of all subsidiaries acquired are included only from the date of acquisition.

The convenience store operations accounted for gross sales of \$72,676,800 for the year ended December 31, 1972 (\$63,454,058 for the year ended January 2, 1972).

3. Inventories

This consists of:	December 31, 1972	January 2, 1972
Convenience stores retail inventory	\$ 4,206,759	\$3,416,837
Dairy division products	2,298,664	2,631,453
Supplies	3,629,061	3,528,223
	<u>\$10,134,484</u>	<u>\$ 9,576,513</u>

4. Fixed assets

This consists of:	Estimated useful life	December 31, 1972	January 2, 1972
Land		\$ 2,200,323	\$ 2,270,769
Buildings	20-50 years	12,267,417	12,284,543
Machinery and equipment	10 years	17,137,969	16,636,063
Merchandising equipment	12 years	14,245,617	13,434,905
Delivery equipment	7 years	10,297,718	10,285,629
Leasehold improvements	term of lease	2,257,157	2,066,683
		58,406,201	56,978,592
Less accumulated depreciation and amortization		29,764,059	28,127,839
		<u>\$28,642,142</u>	<u>\$28,850,753</u>

5. Goodwill and route lists

This represents the excess of purchase price of shares of subsidiaries over net book value of the underlying assets acquired and the cost of route lists. The increase in the investment in Mac's Milk Limited accounted for \$1,979,908 of the total increase in goodwill and route lists for the year of \$2,012,131.

6. Debentures payable and other deferred liabilities

	December 31, 1972	January 2, 1972
7¼% sinking fund debentures Series A, due July 5, 1986 (sinking fund payment of \$400,000 per annum)	\$ 7,766,000	\$ 8,000,500
Term notes payable to bankers (note)	4,887,861	1,889,231
Notes payable	381,153	162,471
Mortgages payable	908,944	1,253,889
Other	164,576	152,629
	14,108,534	11,458,720
Less portion due within one year included in current liabilities (net of debentures redeemed in advance)	1,423,777	451,068
	<u>\$12,684,757</u>	<u>\$11,007,652</u>

Note: A term note of a subsidiary company in the amount of \$1,387,861 is secured by a floating charge debenture on the assets of that subsidiary.

Maturities and sinking fund requirements during the next five years are as follows:

<u>Year Ended</u>	<u>Amount</u>
December 30, 1973 —	\$1,423,777
December 29, 1974 —	\$3,370,496 (including term notes payable to bankers of \$2,518,201)
December 28, 1975 —	\$1,246,275
December 27, 1976 —	\$1,091,534
January 3, 1978 —	\$ 815,057

7. Restrictions on payment of dividends

Under the provisions of the Trust Indenture securing the 7¼% sinking fund debentures, the company cannot declare or pay any dividends (other than stock dividends and dividends at the rate of 60¢ per share per annum on the outstanding Class "A" shares of the company) when:

- consolidated net current assets (as therein defined) of the company and its designated subsidiaries are less than, or would thereby be reduced to less than \$2,500,000, and
- the consolidated retained earnings of the company and its designated subsidiaries will be less than the lesser of 75% of the principal amount of all funded obligations of the company and its designated subsidiaries or \$7,500,000.

8. Extraordinary items

Extraordinary gains, including applicable income taxes of \$25,500 for the year ended December 31, 1972, consist of:

	<u>December 31, 1972</u>	<u>January 2, 1972</u>
Sale of land, buildings and store	\$502,023	
Redemption of debentures	13,095	\$33,761
	<u>\$515,118</u>	<u>\$33,761</u>

9. Lease agreements and commitments

Silverwood Industries Limited and its subsidiary companies have entered into agreements to lease equipment and properties for various periods up to 1992 at total maximum aggregate net rentals of approximately \$24,500,000. The maximum net rentals which will be charged to consolidated operations in the ordinary course of business during the next five years will amount to approximately \$3,000,000 per annum.

As at December 31, 1972 actuarial estimates of the companies' liability in respect of past service pension benefits not provided for in the attached consolidated financial statements amounted to approximately \$211,500 (January 2, 1972 — approximately \$235,000). It is the intention of the companies to provide for and pay this liability in equal annual instalments over the next sixteen fiscal years.

10. Remuneration of directors and senior officers

Aggregate direct remuneration paid or payable by the company and its subsidiaries to directors, who act only in that capacity, and senior officers, some of whom act as directors of the company but do not receive additional remuneration as such, amounted to:

	December 31, 1972	January 2, 1972
Directors	\$ 23,400	\$ 20,706
Senior officers	367,234	391,935
	<u>\$390,634</u>	<u>\$412,641</u>

auditors' report

To the Shareholders of
Silverwood Industries Limited:

We have examined the consolidated balance sheet of Silverwood Industries Limited and its subsidiary companies as at December 31, 1972 and the consolidated statements of income, retained earnings and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972, the results of their operations and the source and application of their funds for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada.
February 14, 1973.

CLARKSON, GORDON & CO.
Chartered Accountants.

SILVERWOOD INDUSTRIES LIMITED

Head Office

75 Bathurst Street, London, Ontario N6B 1N8

Mailing Address

P.O. Box 2185, London, Ontario N6A 4E5

Transfer Agents

The Canada Trust Company — Toronto - Calgary - Vancouver

Auditors

Clarkson, Gordon & Co., Chartered Accountants

Operating Companies

Citrus Juice Division

Londonderry Distributors Limited — Toronto, Ontario

Convenience Store Division

Mac's Milk Limited — Head Office, Toronto, Ontario

Dairy Divisions

Silverwood Industries Limited — Dairy Division — Head Office, London, Ontario

Canmore Dairy Ltd. — Canmore, Alberta

Milum Dominion Dairy Limited — Golden, B.C.

Valley Milk Ltd. — Invermere, B.C.

Leasing Division

Kayesil Limited — Head Office, London, Ontario





SILVERWOOD INDUSTRIES LIMITED

69th Annual Report, FIFTY-TWO WEEKS Ended January 2, 1972

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financial highlights

*52 Weeks Ended January 2, 1972

**40 Weeks Ended January 3, 1971

	*	**
	1972	1971
SALES	\$162,629,505	\$118,042,541
CONSOLIDATED NET INCOME BEFORE EXTRAORDINARY ITEMS	\$ 1,504,587	\$ 1,409,910
CONSOLIDATED NET INCOME FOR PERIOD	\$ 1,538,348	\$ 1,466,225
DIVIDENDS PAID	\$ 1,075,496	\$ 806,622
RATE PER CLASS "A" AND CLASS "B" SHARE	\$.80	\$.60
CONSOLIDATED RETAINED EARNINGS RE-INVESTED IN BUSINESS TO DATE	\$ 15,194,434	\$ 14,731,582
SHAREHOLDERS' EQUITY	\$ 22,535,751	\$ 22,072,899
SHARES OUTSTANDING		
CLASS "A"	903,158	903,158
CLASS "B"	441,212	441,212
EQUITY PER CLASS "A" AND "B" SHARE	\$ 16.76	\$ 16.42
DEBENTURES OUTSTANDING	\$ 8,000,500	\$ 8,391,000
CONSOLIDATED FUNDS PROVIDED FROM OPERATIONS	\$ 4,868,643	\$ 3,864,945
CONSOLIDATED WORKING CAPITAL	\$ 3,274,310	\$ 3,355,441

SILVERWOOD INDUSTRIES LIMITED

(A Canadian owned company with 4,190 shareholders of which 4,110 or 98.1% are resident in Canada and own 99.3% of the total issued stock)

Directors (as at January 2, 1972)

W. I. Barton*	K. C. McGowen
London, Ontario	Toronto, Ontario
Peter V. V. Betts, Q.C.*	R. G. Pardy*
Practice of Law — Partner of the firm of Robarts, Betts, McLennan & Flinn, Barristers London, Ontario	London, Ontario
G. M. Carlyle	D. G. Silverwood*
Calgary, Alberta	London, Ontario
E. F. Findlay*	E. G. Silverwood
London, Ontario	London, Ontario
J. H. Gillies*	H. T. Spettigue*
London, Ontario	London, Ontario
L. R. Gray	J. Allyn Taylor*
London, Ontario	Chairman of the Board and President, The Canada Trust Company and the Huron & Erie Mortgage Corporation London, Ontario
N. E. Kaye	D. H. Thain*
Executive Vice President, George Weston Limited Toronto, Ontario	Professor - School of Business Administration, University of Western Ontario London, Ontario
A. E. Lawrence, Sr.	C. L. Tulloch
Director, Dumoulin, Moore & Duffield Limited London, Ontario	London, Ontario
A. E. Lawrence, Jr.	David B. Weldon*
London, Ontario	Chairman of the Board, Midland-Osler Securities Limited London, Ontario

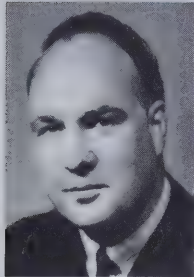
* Member of the Executive Committee

Officers

E. F. Findlay	- - - - -	Chairman of the Board Chief Executive Officer
E. G. Silverwood	- - - - -	Honorary Chairman of the Board
D. G. Silverwood	- - - - -	President
R. G. Pardy	- - - - -	Vice President - Finance
H. T. Spettigue	- - - - -	Vice President - Plant Facilities and Technology - Dairy Divisions
C. L. Tulloch	- - - - -	Vice President - Market and Product Planning - Dairy Divisions
W. I. Barton	- - - - -	Secretary-Treasurer
F. P. Higgs	- - - - -	Controller
A. E. Lawrence, Jr.	- - - - -	Assistant Treasurer
C. E. McArthur	- - - - -	Assistant Secretary

Chairman's Message to Our Shareholders

London, Canada, March 24, 1972



ERIC F. FINDLAY
Chairman of the Board,
Chief Executive Officer

On behalf of the Board of Directors, we are pleased to submit this 69th Annual Report of the consolidated results of Silverwood Industries Limited and its subsidiary companies for the fiscal year ended January 2nd, 1972.

Due to the changes made in the company's fiscal period in 1970, a supplementary summary of operating results is included hereunder. This will allow you to make a logical comparison of the audited results for the fifty-two weeks ended January 2nd, 1972 with the unaudited figures for the fifty-two weeks ended January 3rd, 1971.

	52 Weeks Ended Jan. 2/72 (Audited)	52 Weeks Ended Jan. 3/71 (Unaudited)	Percentage Increase or (Decrease)
Sales	\$162,629,505	\$150,356,921	8.2%
Less:			
Cost of materials and production expenses	118,153,599	107,233,948	10.2%
Selling, administrative & general expenses	36,937,119	36,097,175	2.3%
Depreciation & amortization	3,196,995	2,969,457	7.7%
Interest	981,555	903,856	8.6%
	<u>159,269,268</u>	<u>147,204,436</u>	8.2%
Income before taxes on income	<u>3,360,237</u>	<u>3,152,485</u>	6.6%
Taxes on income:			
Current	1,686,400	1,486,559	13.4%
Deferred	133,300	108,700	22.6%
	<u>1,819,700</u>	<u>1,595,259</u>	14.1%
Consolidated net income before minority interest and extraordinary items	1,540,537	1,557,226	(1.1)%
Minority interest in income of subsidiary companies (net)	35,950	63,392	(43.3)%
Consolidated net income before extraordinary items	<u>1,504,587</u>	<u>1,493,834</u>	.7%
Add extraordinary items:			
Gain on redemption of debentures	33,761	56,315	(40.0)%
Consolidated net income for period	<u>\$ 1,538,348</u>	<u>\$ 1,550,149</u>	(.8)%
Earnings per Class "A" and "B" shares:			
Consolidated net income before extraordinary items	<u>\$1.12</u>	<u>\$1.11</u>	
Consolidated net income for period	<u>\$1.14</u>	<u>\$1.15</u>	

The fifty-two weeks ended January 3rd, 1971 (unaudited) have been prepared by totalling the audited forty weeks ended January 3rd, 1971 with the unaudited operating results for the three months January to March inclusive, 1970. The operating results for January to March inclusive, 1970, are taken from the twelve months audited figures ended March 31st, 1970 adjusted to include 25% of the write-back of excess provisions set up under an expense accrual system for the year ended March 31st, 1970.

Consolidated net sales continued their climb to new heights reflecting an increase of \$12,272,584 or 8.2% over the previous year, the major part of this increase emanating from the continued expansion in convenience store sales.

Consolidated net income after taxes, minority interest and including extraordinary items was basically unchanged as noted in our comparisons with the unaudited figures for the period ended January 3rd, 1971. These results reflect the extremely heavy competitive pressure being placed on margins in both dairy and food operations.

There is a continuing emphasis being placed on the need for greater efficiencies and increased productivity in all phases of the dairy operations and convenience stores. Consolidation of our processing and distribution systems is continuing on a carefully planned basis. Three fluid milk processing operations have been discontinued in 1971 at Red Deer, Alberta, Hamilton and St. Thomas, Ontario. The plants at Red Deer and Hamilton have been converted to distribution depots with milk supplied from Calgary and Toronto respectively. The St. Thomas plant was closed with the sales area being supplied from our London plant. As well, a distribution depot at Blenheim, Ontario has been closed with this sales area now being serviced from our Chatham branch.

A great deal of attention is being focused on the development of a program to restore depressed dairy and food margins and correspondingly continue to build a healthy and expanding company. Home Service fluid milk operations are testing a type of large home delivery package in selected areas, coupled with a more efficient distribution pattern. An overall improvement of home service sales and profits was the result of the introduction of many new products through the latter part of 1970 and 1971, such as dairy puddings, bread, bakery products, soft drinks, all-purpose cleaner, detergent and items of a seasonal nature including packaged cheese, candies, Christmas cake, hot cross buns and Hallowe'en candy handouts. In the Wholesale dairy operations, a planned program of increased deliveries per stop in order to handle maximum volume per delivery unit is well underway.

In the Ice Cream field, attention is being re-focused on the higher margined premium ice cream lines. The initial two specialty ice cream stores under the "Baskin-Robbins" name have been opened in Toronto, Ontario with very favourable start-up acceptance by the public. Additional locations have been and will continue to be acquired in order to expand this area of your company's business.

You were advised in our Preliminary Year End Report published March 2nd, 1972 that the remaining minority interest in our convenience store business, Mac's Milk Limited, was acquired in January of this year. The purchase price of \$2,150,000 paid for this interest reflects your Board of Directors' confidence in the earning capacities of our convenience stores. We are confident that the consolidation and revamping of administrative procedures, in that operation, will increase the profits generated from that segment of our business.

A well-planned program of expansion in the convenience stores is being continued with the ultimate objective of complete coverage in the major population centres in which your company operates. The convenience store business was operating 378 outlets at January 2nd, 1972 (of which 303 are located in Ontario, 22 in Manitoba, 16 in Alberta, 36 in British Columbia and 1 in the city of Hull, Quebec), as compared to 314 outlets at January 3rd, 1971. A portion of the expansion in Ontario was created by the purchase of the Little "Z" stores in the Kitchener-Waterloo area, 17 in number, effective June 28th, 1971. During the year, the company opened stores in two new markets, Sudbury, Ontario and Edmonton, Alberta. Included in the total are 141 franchise stores, an increase of 65 over the previous year-end. The increase in the future commitments for leased equipment and properties of \$9,900,000 as reported to you in the financial statements, reflects the very aggressive approach to this expansion. Our convenience store business is developing into a major segment of our consolidated operations.

Planned leasing and finance requirements for the expanding business, both dairy and convenience stores, is being handled successfully through our wholly owned subsidiary Kayesil Limited.

The surplus real estate property in Vancouver, created by the sale of our home service business in that city, was disposed of in February of this year on a very favourable basis for \$522,000. Surplus property created by the consolidation of operations at Caledonia, Cargill and Woodstock has also been disposed of at prices in excess of current book values.

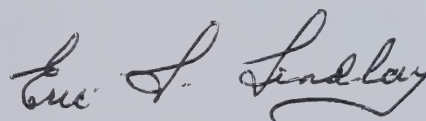
It is appropriate that mention should be made of the change that took place in the position of Chairman of the Board and Chief Executive Officer on October 31st, 1971. The resignation of Mr. N. E. Kaye from that position after some thirty years of service with the company was received with regret, yet no one could deny him the opportunity which was his and which he so richly deserved. We wish him every success in his future endeavours.

Mention also should be made of the continued benefits created by the A. E. Silverwood Foundation in the field of academic assistance and medical research. These are a source of real pride to all who are part of the Silverwood business. During 1971, bursaries were extended to forty students taking University courses and to four nurses taking post-graduate studies in nursing education or nursing science administration. In addition, the A. E. Silverwood Foundation made contributions to a number of organizations to assist in medical research or active treatment.

In closing we would like to say a special word of thanks to our customers for their continued loyal support; the management and staff for the spirit of cooperation in which they carry out their duties; and to our suppliers for their abilities to meet unique problems that develop in meeting production deadlines. To our shareholders, the cooperative attitude apparent in your contact with our staff, management, and directors is sincerely appreciated.

Silverwood Industries Limited being a business engaged primarily in the processing, distribution and retailing of consumer goods, is keenly aware of the necessity of finding a balance between the financial pressures being brought to bear on our consumers through the increased cost of goods necessary to their comfort, the unrelenting increase in cost of our raw materials and labour, and the fair and legitimate concern of our shareholders for a reasonable return on their investment.

The main thrust of our endeavours in 1972 will be to satisfy the needs of our customers in all our business areas, to provide a climate for our employees which allows them to fulfill their hopes and aspirations and to improve the intrinsic value of our stock for the benefit of our shareholders.

A handwritten signature in dark ink, reading "Eric S. Lindley". The signature is fluid and cursive, with the first name "Eric" and last name "Lindley" clearly legible, and "S." as a middle initial.

Chairman of the Board,
Chief Executive Officer

ten year comparative summary

1972 — Fifty-two weeks ended January 2, 1972

1971 — Forty weeks ended January 3, 1971

1963-70 — Each year is a 12 month period ended March 31

FISCAL PERIOD	1972	1971	1970	1969
SALES	\$162,629,505	\$118,042,541	\$144,678,893	\$125,956,843
CONSOLIDATED NET INCOME BEFORE EXTRAORDINARY ITEMS	\$ 1,504,587	\$ 1,409,910	\$ 1,885,299	\$ 1,823,393
CONSOLIDATED NET INCOME FOR PERIOD	\$ 1,538,348	\$ 1,466,225	\$ 2,261,507	\$ 2,094,577
CONSOLIDATED NET INCOME FOR EACH CLASS "A" AND "B" SHARE BEFORE EXTRAORDINARY ITEMS	\$ 1.12	\$ 1.05	\$ 1.40	\$ 1.36
CONSOLIDATED NET INCOME FOR EACH CLASS "A" AND "B" SHARE FOR PERIOD	\$ 1.14	\$ 1.09	\$ 1.68	\$ 1.56
DIVIDENDS	\$ 1,075,496	\$ 806,622	\$ 1,075,498	\$ 1,075,498
PER CLASS "A" SHARE	.80	.60	.80	.80
PER CLASS "B" SHARE	.80	.60	.80	.80
PERCENTAGE OF CONSOLIDATED EARNINGS PAID IN DIVIDENDS	69.9%	55.0%	47.6%	51.3%
CONSOLIDATED EARNINGS RE-INVESTED IN THE BUSINESS	\$ 462,852	\$ 659,603	\$ 1,186,009	\$ 1,019,079
PERCENTAGE OF CONSOLIDATED EARNINGS RE-INVESTED IN THE BUSINESS	30.1%	45.0%	52.4%	48.7%
CAPITAL INVESTED				
LONG TERM DEBT	\$ 11,007,652	\$ 10,670,617	\$ 10,696,847	\$ 9,677,792
SHAREHOLDERS' EQUITY	\$ 22,535,751	\$ 22,072,899	\$ 21,413,296	\$ 20,227,287
TOTAL	\$ 33,543,403	\$ 32,743,516	\$ 32,110,143	\$ 29,905,079
PERCENTAGE OF SHAREHOLDERS' EQUITY TO TOTAL INVESTMENT	67.1%	67.4%	66.7%	67.6%
SHAREHOLDERS' EQUITY PER SHARE	\$ 16.76	\$ 16.42	\$ 15.93	\$ 15.05
CONSOLIDATED WORKING CAPITAL JAN. 2/72; JAN. 3/71; MAR. 31/63-70	\$ 3,274,310	\$ 3,355,441	\$ 4,249,573	\$ 3,103,157

1968	1967	1966	1965	1964	1963
\$ 99,805,847	\$ 90,790,724	\$ 61,956,835	\$ 53,512,422	\$ 51,914,455	\$ 48,017,229
\$ 1,697,382	\$ 1,667,497	\$ 1,535,809	\$ 1,556,958	\$ 1,525,583	\$ 1,342,021
\$ 2,023,326	\$ 1,731,052	\$ 1,559,984	\$ 1,583,590	\$ 1,543,919	\$ 1,400,910
\$ 1.26	\$ 1.24	\$ 1.16	\$ 1.23	\$ 1.22	\$ 1.09
\$ 1.51	\$ 1.29	\$ 1.18	\$ 1.25	\$ 1.23	\$ 1.14
\$ 1,075,495 .80 .80 53.2%	\$ 1,070,570 .80 .80 61.8%	\$ 991,413 .77½ .77½ 63.3%	\$ 882,228 .70 .70 55.7%	\$ 840,326 .67½ .67½ 54.4%	\$ 735,464 .60 .60 52.5%
\$ 947,831 46.8%	\$ 660,482 38.2%	\$ 568,571 36.7%	\$ 701,362 44.3%	\$ 703,593 45.6%	\$ 665,446 47.5%
\$ 9,923,198 \$ 19,165,244 \$ 29,088,442 65.9%	\$ 10,345,957 \$ 18,227,609 \$ 28,573,566 63.8%	\$ 2,950,796 \$ 17,320,583 \$ 20,271,379 85.4%	\$ 1,124,500 \$ 15,254,797 \$ 16,379,297 93.1%	\$ 1,563,000 \$ 14,415,951 \$ 15,978,951 90.2%	\$ 1,839,500 \$ 13,473,744 \$ 15,313,244 88%
\$ 14.26	\$ 13.56	\$ 13.12	\$ 12.07	\$ 11.52	\$ 10.94
\$ 7,683,550	\$ 7,700,429	\$ 2,509,365	\$ 4,880,322	\$ 3,993,444	\$ 3,963,821

consolidated balance sheet - January 2, 1972

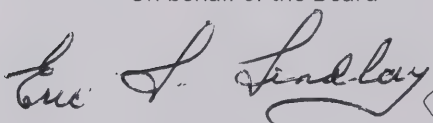
(with comparative amounts at January 3, 1971)

SILVERWOOD INDUSTRIES LIMITED (Incorporated under the laws of Ontario)
and its subsidiary companies

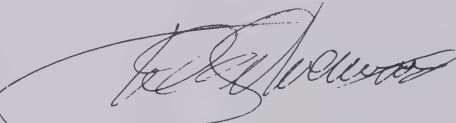
assets

	January 2, 1972	January 3, 1971
Current:		
Cash	\$ 1,107,878	\$ 567,871
Marketable securities — at cost (approximate market value 1972 — \$822,000; 1971 — \$790,000)	928,875	943,875
Trade accounts and other receivables (less allowance for doubtful accounts — 1972 — \$510,744; 1971 — \$647,877)	8,376,169	8,212,155
Inventories — at the lower of cost or net realizable value (see note 2)	9,576,513	8,756,512
Prepaid expenses	909,762	818,316
	<u>20,899,197</u>	<u>19,298,729</u>
Fixed — (see note 3):		
Land, buildings, equipment and leasehold improvements — at cost	56,978,592	54,074,336
Less accumulated depreciation and amortization	28,127,839	26,072,892
	<u>28,850,753</u>	<u>28,001,444</u>
Sundry:		
Deferred expenses and other assets	1,120,475	1,174,549
Goodwill and route lists — at cost (see note 7)	4,016,474	3,740,446
Expenses in connection with debentures issued, less amortization	320,703	341,698
	<u>5,457,652</u>	<u>5,256,693</u>
	<u>\$55,207,602</u>	<u>\$52,556,866</u>

On behalf of the Board



Director



Director

(See accompanying notes to

liabilities

	January 2, 1972	January 3, 1971
Current:		
Due to bankers	\$ 3,683,281	\$ 3,294,753
Accounts payable — milk and cream producers	3,555,300	3,588,586
Other accounts payable and accrued charges	8,363,791	7,867,186
Income taxes payable	796,546	387,889
Employees' tax deductions and realty taxes payable	506,133	513,933
Dividends payable January 3, 1972	268,768	
Principal instalments on debentures and other deferred liabilities due within one year	451,068	290,941
	<u>17,624,887</u>	<u>15,943,288</u>
Debentures payable and other deferred liabilities (see notes 4 and 5)	11,007,652	10,670,617
Deferred income taxes	3,852,250	3,718,950
Minority interest in subsidiary companies	187,062	151,112
Shareholders' equity:		
Capital —		
Class "A" shares without par value entitled to cumulative, preferential dividends of 60¢ per share per annum, payable quarterly, and after the Class "B" shares have received 60¢ per share in any one year to further participation rateably with Class "B" shares; entitled in liquida- tion to a priority of \$15 per share —		
Class "B" shares without par value —		
	Class "A"	Class "B"
Authorized	1,000,000 shs.	500,000 shs.
Issued	903,158 shs.	441,212 shs.
		7,341,317
		<u>7,341,317</u>
Consolidated retained earnings (see note 5)	15,194,434	14,731,582
	<u>22,535,751</u>	<u>22,072,899</u>
	<u>\$55,207,602</u>	<u>\$52,556,866</u>

nsolidated financial statements)

consolidated statement of income

Fifty-two weeks ended January 2, 1972 (with comparative amounts for the forty weeks ended January 3, 1971)

SILVERWOOD INDUSTRIES LIMITED and its subsidiary companies

	January 2, 1972	January 3, 1971
Sales	\$162,629,505	\$118,042,541
Less:		
Cost of materials and production expenses	118,153,599	83,867,980
Selling, administrative and general expenses	36,937,119	28,155,089
Depreciation and amortization	3,196,995	2,290,020
Interest (including interest on short term debt — 1972 — \$241,942; 1971 — \$154,394)	981,555	752,749
	<u>159,269,268</u>	<u>115,065,838</u>
Income before taxes on income	<u>3,360,237</u>	<u>2,976,703</u>
Taxes on income:		
Current	1,686,400	1,380,800
Deferred	133,300	108,700
	<u>1,819,700</u>	<u>1,489,500</u>
Consolidated net income before minority interest and extraordinary item	1,540,537	1,487,203
Minority interest in income of subsidiary companies (net)	35,950	77,293
Consolidated net income before extraordinary item	<u>1,504,587</u>	<u>1,409,910</u>
Add extraordinary item:		
Gain on redemption of debentures	<u>33,761</u>	<u>56,315</u>
Consolidated net income for period (see note 1)	<u>\$ 1,538,348</u>	<u>\$ 1,466,225</u>
Earnings per Class "A" and "B" share:		
Consolidated net income before extraordinary item (1972 — 52 weeks; 1971 — 40 weeks)	<u>\$1.12</u>	<u>\$1.05</u>
Consolidated net income for period (1972—52 weeks; 1971—40 weeks)	<u>\$1.14</u>	<u>\$1.09</u>

(See accompanying notes to the consolidated financial statements)

consolidated statement of retained earnings

Fifty-two weeks ended January 2, 1972 (with comparative amounts for the forty weeks ended January 3, 1971)

SILVERWOOD INDUSTRIES LIMITED and its subsidiary companies

	January 2, 1972	January 3, 1971
Balance, beginning of period	\$14,731,582	\$14,071,979
Add consolidated net income for period (see note 1)	1,538,348	1,466,225
	<u>16,269,930</u>	<u>15,538,204</u>
Deduct:		
Dividends declared (80¢ per share during fifty-two weeks ended January 2, 1972; 60¢ per share during forty weeks ended January 3, 1971) —		
Class "A"	722,526	541,895
Class "B"	352,970	264,727
	<u>1,075,496</u>	<u>806,622</u>
Balance, end of period	<u>\$15,194,434</u>	<u>\$14,731,582</u>

(See accompanying notes to the consolidated financial statements)

consolidated statement of source and application of funds

Fifty-two weeks ended January 2, 1972 (with comparative amounts for the forty weeks ended January 3, 1971)

SILVERWOOD INDUSTRIES LIMITED and its subsidiary companies

	January 2, 1972	January 3, 1971
Source of funds:		
Operations —		
Consisting of:		
Consolidated net income for period	\$1,538,348	\$1,466,225
Amounts deducted in arriving at the above net income, not an outlay of funds —		
Depreciation and amortization	3,196,995	2,290,020
Deferred income taxes	133,300	108,700
	<u>4,868,643</u>	<u>3,864,945</u>
Proceeds from receipt of term notes payable to bankers and mortgages payable	900,000	500,000
Proceeds from disposals of fixed assets	183,704	174,461
	<u>5,952,347</u>	<u>4,539,406</u>
Application of funds:		
Additions to the companies' plant and equipment	4,209,013	4,048,750
Dividends to shareholders	1,075,496	806,622
Provision for retirement of debentures and reduction of other deferred liabilities (net)	562,965	526,230
Increase in sundry assets (net)	186,004	46,297
Investment in subsidiary companies (including working capital deficits of subsidiaries at date of acquisition)		5,639
	<u>6,033,478</u>	<u>5,433,538</u>
Decrease in consolidated working capital	81,131	894,132
Consolidated working capital, beginning of period	3,355,441	4,249,573
Consolidated working capital, end of period	<u>\$3,274,310</u>	<u>\$3,355,441</u>

(See accompanying notes to the consolidated financial statements)

notes to the consolidated financial statements *January 2, 1972*

SILVERWOOD INDUSTRIES LIMITED and its subsidiary companies

1. Principles of consolidation

The accompanying consolidated financial statements include the accounts of all subsidiary companies in which Silverwood Industries Limited or its subsidiaries owned an equity interest in excess of 50% at the respective fiscal year ends with appropriate provision for minority interest. The operating results of subsidiaries previously acquired are included only from the date of acquisition.

The convenience store operations accounted for gross sales of \$63,454,058 for the fifty-two weeks ended January 2, 1972.

2. Inventories

This consists of:	January 2, 1972	January 3, 1971
Retail stores inventory	\$3,416,837	\$3,105,457
Dairy products	2,631,453	2,346,063
Stores and supplies	3,528,223	3,304,992
	<u>\$9,576,513</u>	<u>\$8,756,512</u>

3. Fixed assets

This consists of:	Estimated useful life	January 2, 1972	January 3, 1971
Land		\$ 2,270,769	\$ 2,119,465
Buildings	20-50 years	12,284,543	12,139,928
Machinery and equipment	10 years	16,636,063	16,351,229
Merchandising equipment	12 years	13,434,905	11,806,594
Delivery equipment	7 years	10,285,629	9,973,105
Leasehold improvements	term of lease	2,066,683	1,684,015
		56,978,592	54,074,336
Less accumulated depreciation and amortization		<u>28,127,839</u>	<u>26,072,892</u>
		<u>\$28,850,753</u>	<u>\$28,001,444</u>

notes to the consolidated financial statements *continued*

4. Debentures payable and other deferred liabilities

	January 2, 1972	January 3, 1971
7¼% sinking fund debentures Series A, due July 5, 1986 (sinking fund payment of \$400,000 per annum)	\$ 8,000,500	\$ 8,391,000
Term notes payable to bankers	1,889,231	1,500,000
Notes payable	162,471	391,240
Mortgages payable	1,253,889	547,828
Lease deposits	152,629	131,490
	<u>11,458,720</u>	<u>10,961,558</u>
Less portion due within one year included in current liabilities (net of debentures redeemed in advance)	451,068	290,941
	<u>\$11,007,652</u>	<u>\$10,670,617</u>

Maturities and sinking fund requirements during the next five years are as follows:

Year Ended	Amount
December 31, 1972 —	\$ 451,068
December 30, 1973 —	2,331,576 (including term notes payable to bankers of \$1,340,000)
December 29, 1974 —	788,327
December 28, 1975 —	687,433
December 27, 1976 —	616,764

5. Restrictions on payment of dividends

Under the provisions of the Trust Indenture securing the 7¼% sinking fund debentures, the company cannot declare or pay any dividends (other than stock dividends and dividends at the rate of 60¢ per share per annum on the outstanding Class "A" shares of the company) when:

- consolidated net current assets (as therein defined) of the company and its designated subsidiaries are less than, or would thereby be reduced to less than \$2,500,000 and
- the consolidated retained earnings of the company and its designated subsidiaries will be less than the lesser of 75% of the principal amount of all funded obligations of the company and its designated subsidiaries or \$7,500,000.

6. Lease agreements and commitments

Silverwood Industries Limited and its subsidiary companies have entered into agreements to lease equipment and properties for various periods up to 1991 at total maximum aggregate net rentals of approximately \$24,250,000. The maximum net rentals which will be charged to consolidated operations in the ordinary course of business during the next five years will amount to approximately \$2,600,000 per annum. This represents in the main, the extension of the convenience store operations.

Subsequent to January 2, 1972, the company acquired the balance of the issued shares of Mac's Milk Limited for \$2,150,000, with bank financing arranged.

7. Goodwill and route lists

This consists of route lists and excess of purchase price of shares of subsidiary companies over net book value of the underlying assets acquired. During the fifty-two weeks ended January 2, 1972, purchased goodwill increased by \$276,028.

8. Executive remuneration

Remuneration to directors and senior officers of the company was \$412,641 for the fifty-two weeks ended January 2, 1972.

9. Pensions

As at January 2, 1972 the companies' liability in respect of past service pension benefits not provided for in the attached consolidated financial statements amounted to approximately \$235,000. It is the intention of the companies to provide for and pay this liability in equal annual instalments over the next eighteen fiscal periods.

auditors' report

To the Shareholders of Silverwood Industries Limited:

We have examined the consolidated balance sheet of Silverwood Industries Limited and its subsidiary companies as at January 2, 1972 and the consolidated statements of income, retained earnings and source and application of funds for the fifty-two weeks ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 2, 1972, the results of their operations and the source and application of their funds for the fifty-two weeks ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

London, Canada.
February 18, 1972.

CLARKSON, GORDON & CO.
Chartered Accountants.

SILVERWOOD INDUSTRIES LIMITED

Head Office

75 Bathurst Street, London 15, Canada

Mailing Address

P.O. Box 2185, Terminal A, London 12, Canada

Transfer Agents

The Canada Trust Company — Toronto - Calgary - Vancouver

Auditors

Clarkson, Gordon & Co., Chartered Accountants

Operating Companies

Dairy Divisions

Silverwood Industries Limited — Dairy Division — Head Office, London, Ontario

Canmore Dairy Ltd. — Canmore, Alberta

Milum Dominion Dairy Limited — Golden, B.C.

Valley Milk Ltd. — Invermere, B.C.

Londonderry Distributors Limited — Toronto, Ontario

Convenience Store Division

Mac's Milk Limited — Head Office, Toronto, Ontario

Leasing Division

Kayesil Limited — Head Office, London, Ontario



Silverwood's